

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION INTO THE FEASIBILITY)	
OF IMPLEMENTING DEMAND-SIDE)	ADMINISTRATIVE
MANAGEMENT COST RECOVERY AND)	CASE NO. 341
INCENTIVE MECHANISMS)	

O R D E R

By Order dated July 24, 1992 the Commission initiated this investigation and directed certain utilities to respond to a list of issues set forth in Appendix A to that Order. It has since come to our attention that pages 5 and 6 were inadvertently omitted from Appendix A.

IT IS THEREFORE ORDERED that Appendix A, attached hereto and incorporated herein by reference, shall be substituted for Appendix A to the July 24, 1992 Order. All other provisions of the July 24, 1992 Order shall remain in full force and effect.

Done at Frankfort, Kentucky, this 28th day of July, 1992.

PUBLIC SERVICE COMMISSION



For the Commission

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN
ADMINISTRATIVE CASE NO. 341 DATED 7/28/92

AREAS OF INQUIRY

1. Should the Commission adopt some form of DSM program cost recovery mechanism?

a. If not, why not?

b. If so, would a balancing-account reconciliation or capitalization method be the most appropriate mechanism to use? Explain the reasons for the options chosen.

2. Should the Commission combine DSM program cost recovery and lost revenue recovery mechanisms?

a. If not, why not?

b. If so, what would be the best combination of programs?

3. Should the Commission adopt some form of decoupling mechanism?

a. If not, why not?

b. If so:

(1) How should the mechanism be structured?

(2) How often should the revenue review and adjustment occur and why?

(3) What is the best procedure for revenue review?

4. The ERAM decoupling model uses a future test year approach in setting the utility's non-fuel revenue requirement. Comment on the appropriateness of using this model in Kentucky.

5. The ERAM model, which eliminates the link between sales and overall revenue levels, tends to insulate the utility's profits and rate of return from the effects of conservation, economic fluctuations and weather.

a. Given this insulation, would the market perceive a change in the riskiness of the utility, resulting in a change in the utility's rate of return?

b. By what magnitude would the rate of return be expected to change?

c. Would the Commission be justified in reflecting this perceived change in riskiness in the utility's allowed rate of return.

6. Comment on the appropriateness of using a decoupling method such as an ERAM on a per-customer basis in Kentucky.

7. Most states with a reconciled fuel adjustment clause either explicitly or implicitly allocate average fuel cost to each KWH sold. For example, a \$0.07 commercial rate and a \$0.05 industrial rate each include \$0.02 of average fuel cost. This means that the non-fuel contribution to earnings is \$0.05 for the commercial rate and \$0.03 for the industrial rate. Similarly, for utilities with time-of-use or seasonal rates, the higher on-peak rates make a greater contribution to profits. For example, a utility may have a \$0.10 per KWH on-peak rate and a \$0.05 per KWH off-peak rate, including a fuel cost of \$0.02. This means that the non-fuel contribution to profits is higher with on-peak rates. As an incentive to shift consumption from on-peak to off-peak

periods, comment on the appropriateness of altering the manner in which the non-fuel component in rates is accounted for, such that:

a. A greater proportion of on-peak rates will be treated as fuel revenue and a greater proportion of off-peak rates will be treated as non-fuel revenue.

b. Creating actual or "accounting" block rates which would alter the treatment of fuel and non-fuel revenues. An accounting block rate would change the treatment of revenues, without actually changing the rates as seen by customers.

8. As an alternative to decoupling:

a. Comment on the appropriateness of using lost revenue adjustments to recover lost revenue resulting from DSM programs.

b. Explain whether this method is preferable to implementing a decoupling mechanism.

(1) From the company's point of view.

(2) From the customer's point of view.

9. Comment on the appropriateness of using rate of return adjustments as an incentive for pursuing DSM investments.

10. With respect to adjusting the rate of return on total rate base in relation to a specified accomplishment, such as achieving a target level of conservation, a reduction in customer bills or a specified level of DSM activity:

a. Explain how utility performance should be evaluated and why the chosen evaluation measures are better than other evaluation measures.

b. How would good performance be translated into higher rates of return?

c. Explain whether or not there should be a penalty for failure to achieve acceptable performance levels.

11. Comment on the appropriateness of adjusting the rate of return according to the level of DSM investment, assuming costs are capitalized.

12. With respect to adjusting the rate of return on the ratebase associated with DSM investment in relation to a specified accomplishment:

a. Explain how utility performance should be evaluated and why the specified evaluation measure(s) is better than alternative measures.

b. How would good performance be translated into higher rates of return?

c. Explain whether or not there should be a penalty for failure to achieve acceptable performance levels.

13. Explain whether the adjustment of the rate of return according to customer bill changes is an appropriate method to use in Kentucky.

14. With respect to adjusting the rate of return according to customer bill changes:

a. Explain how performance should be evaluated and why this measure(s) is better than alternatives.

b. How would good performance be translated into higher rates of return?

c. Explain whether or not there should be a penalty for failure to achieve acceptable performance levels.

15. In order to ensure that DSM program costs are minimized, should the costs be recovered by a separate mechanism or within a rate of return adjustment scheme? Explain why or why not.

16. Comment on the appropriateness of using a bounty for recovering DSM investments.

17. In the event that bounties are instituted, how should utility performance be evaluated?

a. Should there be a penalty for failure to achieve performance standards?

18. Given the four examples of shared savings discussed in the previous section, discuss the appropriateness of implementing each of the approaches in Kentucky, i.e.:

a. Estimated Resource Savings.

b. Actual Resource Savings.

c. Customer Bill Savings.

d. Unbundled Services.

19. Generally, shared savings mechanisms do not decouple sales from revenues. In order to achieve decoupling, shared savings mechanisms are paired with other types of incentive programs. If some form of decoupling and shared savings program are to be implemented, what would be the optimal combination of programs in Kentucky?

20. Should DSM cost recovery and incentive mechanisms be implemented in a generic fashion for all electric utilities or

should individual measures be instituted on a utility-by-utility basis? Explain.

21. Are there any additional comments or issues relating to DSM program cost recovery, lost revenue recovery, incentives, or related topics which have not been adequately addressed by these questions? If so, provide a discussion of these topics and a copy of any pertinent papers, studies, or book chapters. For any source material that is voluminous in nature, provide only a reference or citation.